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Accounting Profession in Denmark; Professional Accounting in Foreign Country Series

Ernst & Young

Steven F. Moliterno

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The Accounting Profession in Denmark

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

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American Institute of Certified Public Accountants

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The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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The International Booklets Task Force gratefully acknowledges the contributions made to the development of this series by Howard Keefe, Harvey Moskowitz, James Flynn, and Susan Sgromo, and by the accounting firms of Arthur Andersen & Co. and Coopers & Lybrand. The Task Force would also like to acknowledge the fine editorial efforts of Mary Mooney and the production work of Robert DiCorcia, Jeanmarie Brusati, and Kathy Rangoon.

The Accounting Profession in Denmark

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by
Ernst & Young

STEVEN F. MOLITERNO, CPA
Series Editor

AICPA

American Institute of Certified Public Accountants

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New York, NY 10036-8775

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Department, AICPA, Harborside Financial Center, 201 Plaza Three,
Jersey City, NJ 07311-3881.

1 2 3 4 5 6 7 8 9 0 T I 9 9 8 7 6 5 4

Library of Congress Cataloging-in-Publication Data
(Revised for volume 23)

The Accounting profession in Denmark

"Steven F. Moliterno, series editor."

Includes rev. editions of some vols.

Includes bibliographies.

Contents: [1] Canada / prepared by Fuller Jenks Landau —

[2] Netherlands / prepared by Ernst & Whinney — [etc.] —

[23] Denmark / prepared by Ernst & Young.

1. Accounting. 2. Comparative accounting.

I. Moliterno, Steven F.

II. American Institute of Certified Public Accountants.

III. Professional accounting in foreign countries series.

HF5611.A34 1987 657 87-150526

ISBN 0-87051-156-4

Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of June 1994. Changes after this date in the standards of either the United States or Denmark may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Denmark. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Danish auditing standards and accounting principles with those generally accepted in the United States are included as appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Denmark but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson
Vice President—Technical
Standards and Services

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The title *revisor* is not protected, and anyone may use the title and offer accounting, auditing, and tax services. The titles *statsautoriseret revisor* (state-authorized public accountant) and *registreret revisor* (registered accountant) may only be used by persons who have passed the required exams and fulfill other specific requirements. The major professional public accounting organizations—the Institute of State-Authorized Public Accountants (FSR) and the Institute of Registered Accountants (FRR)—control the professional conduct of their members, collectively, certified public accountants (CPAs). Membership in these organizations is not compulsory. The FRR can be reached at the following address:

Foreningen af Statsautoriserede Revisorer
Revisorernes Hus
Kronprinsessegade 8
DK 1306 Copenhagen

2. The laws concerning CPAs in Denmark—*Lov om statsautoriserede revisorer* (LOSR) and *Lov om registrerede revisorer* (LORR)—permit CPAs to engage only in auditing or consulting services:

Foreign Reciprocity

3. At least one of a company's auditors must be a *statsautoriseret revisor* or a *registreret revisor* and be a resident of Denmark. For companies listed on the Copenhagen Stock Exchange, at least two auditors must be appointed, one of whom must be a state-authorized public accountant residing in Denmark. In special cases, the Ministry of Industry may permit foreign accountants to perform audits that would normally be conducted by a state-authorized public accountant.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

4. Generally accepted auditing standards (GAAS) in Denmark is an amalgamation of legal requirements and guidelines, recommendations, and pronouncements issued by boards and committees of the FSR. They primarily address specific auditing and reporting topics.

5. The most important law regarding the preparation of financial statements, *Arsregnskabsloven* (the Financial Statements Act) together with supplemental regulations (collectively, ARL), contains requirements and standards of a general nature.

6. Professional standards are promulgated by the following bodies:

- *Revisionsteknisk udvalg*—Auditing Principles Board (AUPB), a subcommittee of the FSR that issues guidelines on auditing procedures, reporting, standards, and the like
- *Regnskabsteknisk udvalg*—Accounting Principles Board (ACPB), a subcommittee of the FSR that issues guidelines on accounting procedures and standards
- *Responsumudvalget*—Expert Opinion Committee (EOC), a subcommittee of the FSR that provides guidance on issues regarding generally accepted auditing and accounting practice when requested by FSR members, the legislative assembly, or the courts

Ethics Requirements

7. The FSR provides ethical guidance covering a wide range of matters including the preparation of accounting records, and

situations in which a member should not accept an appointment to replace an existing auditor.

8. Fees should be based on hours spent on the engagement. There is no specific guidance regarding fees, except that they should not exceed what may be deemed reasonable and should not depend on the financial outcome of the service.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

9. The directive regarding eligibility for conducting statutory audits requires that auditors satisfy the following requirements.

- Complete a program of training at the university level.
- Train with an approved auditor (state-authorized public accountant) for a minimum of three years.
- Pass an examination recognized by the state, which covers principally auditing, accounting, and taxation.
- Be insured for a minimum of Danish kroner (DKK) 500,000.

10. To become a member of the FSR, the applicant must be registered with the Ministry of Industry.

11. The following requirements must be met to become a *registreret revisor*.

- Train with an approved auditor (state-authorized or registered accountant) for a minimum of three years.
- Pass an examination approved by the Minister of Industry.
- Be insured.

12. To become a member of the FRR, the applicant must be registered with the Ministry of Industry.

Number of Members

13. At the beginning of 1993 the FSR had approximately 2,450 members, of which approximately 500 had filed their licenses with the Ministry of Industry as inactive members. The FRR had approximately 3,200 members.

CPE Requirements

14. The FSR and the FRR encourage their members to participate in continuing professional education, and they offer several courses and seminars covering various aspects of the profession.

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

15. The purpose of an audit is to issue a report to readers of the financial statements of a company. This report shall include the auditor's opinion regarding whether the statements give a *retvisende billede* (true and fair view) of the company's affairs and its result and whether the financial statements have been properly prepared in accordance with the statutory accounting requirements.

16. Auditors are required to include in their reports certain additional information if, in the auditor's opinion, such information is essential for a full understanding of the financial statements and omission would result in the statements not being fairly presented.

17. From an audit perspective, there is no distinction between smaller companies (*Anpartsselskaber* (ApS)—private companies limited by shares) and larger companies (*Aktieselskaber* (A/S)—public companies limited by shares).

Entities Required To Be Audited

18. All limited liability companies (A/S companies and ApS companies) must be audited. The audit requirement is set forth in ARL.

19. In 1984, the *Lov om erhvervsdrivende fonde* (LOEF) and *Lov om fonde og visse foreninger* (LOFOF) were enacted by the Danish parliament. The two laws deal with accounting and auditing of

commercial foundations, private foundations, associations, and similar types of entities. Certain small private foundations and associations are exempt from the requirements of these laws. In 1994, the *Lov om erhvervsdrivende virksomheder* (LOEV) was enacted by the Danish parliament. This pertains to accounting and auditing of entities with limited liability. It is effective as of 1995.

20. Other private enterprises that are not subject to the provisions of ARL, LOEF, LOFOF, or LOEV need not appoint an auditor unless required to do so by the rules and regulations under which they are formed and governed.

Appointment and Qualifications of Auditors

21. At the annual general meeting of a company, one or more auditors are appointed by the shareholders. The auditor must be independent of the company's board of directors, management, and key accounting and treasury officers.

22. The articles of association may stipulate the right of others (such as state or municipal authorities) to appoint additional auditors.

23. At the general meeting of A/S companies at which the appointment of auditors is on the agenda, shareholders representing at least 10 percent of the capital vote may demand that a state-authorized public accountant be elected. In ApS companies, shareholders representing at least 25 percent of the capital may demand such an appointment.

24. Companies whose shares are quoted on the Copenhagen Stock Exchange must appoint two auditors, one of whom must be a state-authorized public accountant.

25. The appointment of a firm of auditors pertains to individuals within the firm. It is those individuals who must satisfy the requirements of the law regarding eligibility and independence. If no auditor has been appointed, or if the auditor does not fulfill the legal requirements or the articles of association, the Registrar and Agency of Companies and Commerce shall appoint an auditor when so requested by a member of the board, a director, or a shareholder.

26. The auditor's responsibilities cease at the conclusion of the annual general meeting held subsequent to the end of the

accounting year for which the auditor was appointed. An auditor may be dismissed by a decision of those who appointed him or her. An auditor may resign at any time. If the auditor resigns or is dismissed, he or she must immediately notify the Registrar. A newly appointed auditor of a company is required by law to contact the predecessor, who is obliged to inform the successor about the reasons for his or her withdrawal. For the purpose of this consultation, the predecessor is exempted from the legal requirements regarding confidentiality.

27. The Ministry of Industry is responsible for the authorization of persons who may act as certified auditors.

28. The following persons are precluded from acting as auditors of a company:

- a. Members of the board of directors or the shareholders committee of the company or its subsidiaries
- b. Persons who are employed by the company or who are otherwise in a dependent relationship to the company, its directors, or managers; or staff responsible for the accounts or for the managing of the company's assets
- c. Persons who are related by marriage, adoption, or family relation to the directors or management of the company

29. A CPA is not allowed to render an opinion on the accounts of an enterprise if he or she or his or her spouse, parents, or children have an economic interest in that enterprise.

30. An auditor is not allowed to render an opinion on the financial statements of a company that has any kind of economic influence on the firm in which the auditor is employed. Similarly, if there are other circumstances that are likely to cast doubt on the auditor's independence, the auditor should not be appointed as auditor of that company.

31. Persons who are ineligible for appointment as auditors of a parent company are likewise ineligible for appointment as auditors of a subsidiary. An auditor is not allowed to receive loans or guarantees from a company that he or she audits or from other companies within the same group. Rendering of consultancy services does not prohibit an individual from acting as auditor.

32. At the request of a member of the company, a special investigation may be authorized by a majority vote of shareholders at a general meeting or by votes representing 25 percent or more of capital.

Duties

33. The auditor's responsibility is to express an opinion on the financial statements based on an audit performed in accordance with GAAS. If the company is a parent company, the auditor's report also covers the consolidated accounts and the accounting relationship between the companies in the group. During the audit, the auditor must carry out a critical review and evaluation of the accounting systems and internal controls established by the company.

34. If the financial statements, including the directors' report, do not give the information required in relation to the company's assets, liabilities, financial position, and result of operation, the auditor must qualify his or her opinion and provide the necessary supplementary information in the report. The same applies if the auditor considers that the directors' report is not consistent with the financial statements.

35. If the auditor considers that the financial statements, as submitted to the shareholders in connection with the annual general meeting, should not be approved by the shareholders, the auditor shall so state in his or her report.

36. The auditor may accept special assignments from the board of directors or other officers of the company, provided that the assignments do not serve to restrict the scope of the statutory audit.

Rights

37. The board of directors and the management must afford access to such information and accounting records as the auditor considers necessary. The auditor must receive the information and assistance necessary for the execution of his or her duties. The board of directors and the management of a subsidiary company have similar obligations to the auditor of the parent company.

38. If the auditor discovers matters that may involve liability on the part of the directors or the management, such matters

must be disclosed in the auditor's report. The auditor may also include in his or her report information considered appropriate for shareholders.

39. The auditor is entitled to attend the annual general meeting and is required to attend if his or her presence is requested by a director, management, or shareholder. The auditor must attend the annual general meeting of a publicly quoted company.

40. The auditor must keep information obtained during the audit of a company confidential until the requirement for confidentiality is lifted by legal decree or by the board of directors.

Liability

41. The auditor is liable to the company for any losses that he or she may have willfully or negligently inflicted upon a company. This liability also applies to third-party losses.

42. The auditor may also be liable under criminal law for the publication of financial information that the auditor knows is misleading or false.

43. The auditor cannot limit his or her liability regarding negligence or breach of duty. According to LOSR, state-authorized public accountants must have insurance for the performance of duties as a state-authorized public accountant.

Audit Scope

44. The scope of a statutory audit is not defined in ARL. According to LOSR, the signature of a state-authorized public accountant on the financial statements implies that the financial statements have been audited by him or her in accordance with GAAS; that they have been correctly prepared on the basis of the accounting records; and that they have been properly prepared to reflect existing assets, rights, and liabilities in accordance with statutory accounting requirements.

Auditing and Reporting Responsibilities

45. The directors of the company, not the auditors, are responsible for ensuring that the company maintains proper accounting

records and that its annual financial statements present fairly the assets and liabilities of the company, financial position, and result of operation for the year.

46. The auditor's responsibility is to report whether or not these obligations have been fulfilled. The auditor has the right of access to the books, records, and vouchers of the company to the extent necessary to discharge his or her statutory duties.

47. A company's financial statements may include additional information such as highlights of financial results, five-year summaries, and the like. Such financial information is also covered by the auditor's report.

48. The information contained in the director's report must be consistent with information provided elsewhere in the financial statements.

Filing of Reports

49. The audit report is an integral part of the annual financial statements filed with the Registrar of Companies. The financial statements must be approved at a general meeting of shareholders no later than six months after the end of the financial year and filed with the Registrar no later than one month after approval.

50. For companies publicly quoted on the Copenhagen Stock Exchange, annual accounts must be published as early as possible but no later than five months after the year-end. The mandatory semiannual financial reports must be prepared and published no later than two months after the end of the interim period.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

51. GAAS in Denmark is not codified to the same extent and detail as in the United States.

General Standards

52. Matters similar to those discussed in the general standards in the United States are covered by legal requirements in ARL and guidelines promulgated by the FSR.

Standards of Fieldwork

53. Danish state-authorized public accountants adhere to standards of fieldwork similar to those in the United States.

- The auditor adequately plans, controls, and records his or her work. The audit is planned with respect to materiality and audit risk.
- The auditor reviews the systems of recording and internal control and assesses their adequacy as a basis for the preparation and audit of financial statements.
- The auditor obtains sufficient, relevant, and reliable audit evidence to enable him or her to draw the necessary audit conclusions.
- If the auditor intends to rely on internal controls, he or she reviews and evaluates these controls and performs compliance tests to ensure that they are operating efficiently and effectively.
- U.S. GAAS embodies a number of more detailed standards for auditing procedures. A similar set of standards in Denmark, albeit of a less detailed nature, is the nineteen audit guidelines (AG) issued by the AUPB under the FSR (see appendix A) and the rulings of the EOC under the FSR.

54. The major differences between Danish and United States standards are noted below.

- Management's representation letter is not mandatory in Denmark. AG No. 5, *Management Representations to the Auditor*, however, advocates the practice of obtaining either a signed representation letter from management or preparing a memorandum of the topics discussed at the closing conference with management.
- In Denmark, legal letters of representation are not mandatory; however, auditors usually contact the company's legal counsel to obtain at least an oral statement.
- Engagement letters are not required in Denmark. The contents of engagement letters are generally included in the auditor's statutory reporting to the board of directors.

Standards of Reporting

Content and Format of Reports

55. The contents of the audit report are prescribed in a notice issued by the Registrar of Companies. The standard requires that the auditor confirm in the opinion that the financial statements and, if applicable, the consolidated financial statements have been audited by him or her. In addition, the auditor is required to confirm whether or not the financial statements have been prepared in accordance with the requirements of the law and the company's articles of association.

56. AG No. 7, *The Audit Report*, recommends wording of the standard audit report. According to this guideline, the opinion must summarize the results and conclusions from the audit conducted in accordance with GAAS. An example of an auditor's report is included in appendix C, beginning on page 43.

57. The audit report is not required to include a statement regarding consistency in the application of accounting principles. Consistency is a fundamental principle to be generally applied, and thus no specific confirmation is required. In the event that accounting principles have not been consistently applied or accounting principles deviate from legal requirements, full disclosure must be made in the notes to the financial statements, as well as the effect, in monetary terms, of the deviation on the financial position and result.

Consolidated Financial Statements

58. The auditor of a parent company shall also audit the consolidated financial statements and examine the internal accounting relationship among the companies in the group.

59. No separate audit report on the consolidated statements is required; however, the standard report usually includes reference to the consolidated financial statements.

Qualified Opinion

60. An auditor is required to tender a qualified opinion if the financial statements do not fairly present a company's financial position and result, or if the directors' report does not contain the

necessary and appropriate information to allow an evaluation of the company's assets and liabilities, financial position, and other required information.

61. AG No. 7 requires a clear and precise disclosure of any uncertainties or differences of opinion between the auditor and the directors and management that causes the auditor to qualify the opinion. If, during the course of the audit, the auditor identifies transactions and conduct relating to or on the part of members of the board, directors, or other members that in his or her opinion are actionable, a statement to that effect must be included in the audit report.

Disclaimer of Opinion

62. If the auditor is unable to express an opinion on the financial statements as a whole due to uncertainties or discrepancies that are so fundamental to the financial statements that a qualified opinion is insufficient, the auditor's report shall express that he or she is unable to form an opinion. Such a disclaimer shall include an appropriate description of why the auditor is unable to form an opinion.

Report on Management Performance

63. ARL does not require the auditor to assess the company's managerial and commercial decisions. However, it is mandatory for the auditor to report to management on deficiencies identified in the course of an audit (such as weaknesses in the accounting systems and internal controls). Such comments are normally supplemented by suggestions for improvement.

64. The auditor is required to report to the board of directors of the company in a *Revisionprotokol* (audit minutes), which includes a description of the purpose of the audit and how it is conducted. The auditor should describe the audit procedures utilized and the findings, including appropriate comments on any internal control weaknesses. The auditor should also describe significant accounting estimates and special risks and issues that he or she wishes to highlight to the board of directors. Audit minutes are prepared solely for the benefit of members of the board and are not distributed externally except in the case of certain financial enterprises. The FSR's AG No. 18, *Preparation of Audit Minutes*, describes the requirements

for preparing the audit minutes. In practice, one or two entries are normally made during a year in the audit minutes book. Audit minutes, however, are always prepared at the time the auditor's opinion on the financial statements is issued. Entries in the audit minutes book must be read and signed by every member of the board of directors.

65. The audit minutes should also include other information that the auditor considers relevant and appropriate to convey to members of the board of directors. In addition, disclosure of special investigations and assistance provided by the auditor during the course of the year must be made in the audit minutes, together with a summary of the results thereof, as appropriate.

Publication

66. The financial statements, including the auditor's report, must be made available for inspection at the office of the company no later than eight days before the annual general meeting and shall be sent to all members who so request. No later than one month after the approval and adoption of the financial statements at the annual general meeting of shareholders, a certified copy of the financial statements, including the directors' report and the audit report, must be submitted to the Registrar of Companies. If the statements are submitted late, both the board of directors and company management are subject to penalties. Receipt of the financial statements is published in the *Statstidende* (official gazette), and the financial statements are publicly available from the Registrar.

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

67. In June 1981, Denmark adopted ARL, which regulates the form and content of financial statements for limited liability companies. Banks, insurance companies, and certain mortgage and loan institutions are exempt from the law. The law pertains to A/S, ApS, limited partnership companies, and limited partnerships when the partners are an A/S or an ApS. Financial statements of partnerships, branches, sole proprietorships, and the like, are subject to accounting requirements governed by the Bookkeeping Act and tax legislation.

68. The accounting principles in ARL are elaborated and supplemented in *Bekendtgørelse om opstilling af arsregnskab og koncernregnskab* (Bekg or Regulation on Preparation of Financial Statements and Consolidated Financial Statements).

69. In addition to these accounting principles, the FSR issues technical opinions and guidelines on accounting matters and promulgates standards issued by the International Accounting Standards Committee (IASC). Together with the rules of ARL, these guidelines are viewed as generally accepted accounting principles and practices in Denmark.

70. Public companies quoted on the Copenhagen Stock Exchange must prepare financial statements in accordance with standards and guidelines issued by the FSR. These guidelines are generally in accordance with International Accounting Standards (IAS).

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

71. The directors of a company are required to submit annual audited financial statements to the shareholders for their approval at the general meeting.

72. The audited financial statements consist of the directors' report, an audit report, income statement, balance sheet, and footnotes.

73. A parent company must present consolidated financial statements including consolidated income statement, balance sheet, and appropriate footnotes. Consolidated financial statements are not required for small groups meeting certain criteria. Consolidated financial statements must be prepared and filed together with the parent company's financial statements.

74. ARL permits a number of alternative formats for the balance sheet and the income statement; however, once adopted, the format must be consistently applied and may only be changed under special circumstances with appropriate disclosure of the change and its effect on the financial statements. The act additionally requires comparative figures to be included in the balance sheet and income statement.

75. The inclusion of a statement of source and application of funds in the financial statements is a statutory requirement for companies whose shares are listed on the Copenhagen Stock Exchange and is strongly recommended in guidelines for other larger companies. In Denmark, a cash-flow analysis is often used in place of a statement of source and application of funds. Both provide basically the same information.

76. The financial statements must present fairly the financial position of the company, and information must be added if omission of such information would not give a fair presentation. Deviation from the requirements of ARL is mandatory if strict compliance with legal requirements would impair the fair presentation. Any such deviation must be disclosed in an explanatory note showing the effect on the financial position and result for the period.

Types of Statements Prepared

77. The amount of information required to be included in the financial statements depends on the size of the company. Certain small and medium-sized companies may file abbreviated statements consisting of an abridged income statement, a balance sheet, and abridged footnotes. For qualifying small companies, the directors' report need not be filed with the Registrar of Companies. If a parent company is a small company, as defined, and one of its subsidiaries does not qualify as a small entity, ordinary financial statements including full note disclosures must be filed. Qualifying small companies are companies not exceeding two of the following criteria: sales of DKK 24 million, total assets of DKK 12 million, and an average of no more than fifty full-time employees during the year. Qualifying medium-sized companies may present an income statement beginning with the gross profit (or loss) and thus omit disclosure of sales and cost of sales. Medium-sized companies are defined as companies not exceeding two of the following criteria: sales of DKK 100 million, total assets of DKK 50 million, and an average of no more than 250 full-time employees during the year.

Directors' Report

78. The directors' report contains the directors' discussion of the company's affairs. The report should address—

- a. Important post-balance-sheet events affecting the company or any of its subsidiaries.
- b. Financial outlook for the coming period.
- c. Research and development activities.
- d. Proposed dividend, if not disclosed in the income statement.
- e. Proposed appropriation of the profit or loss, if not disclosed in the income statement.
- f. Supplementary information, if not already disclosed in the income statement, balance sheet, or the notes for a full understanding of the financial position and results of operation. If, in the directors' opinion, disclosure of such information would be prejudicial to the company, these disclosures can be omitted.

In addition, the Companies Act requires disclosure of the names of shareholders holding more than 5 percent of the capital.

79. In a parent company financial statement, the directors' report must address, on a group level, the same information as listed above except for items *d* and *e*.

Footnotes

80. Important footnote disclosures for all companies include —

- A summary of accounting principles applied in the preparation of the financial statements.
- A description of the changes in fixed assets and related reserve accounts.
- Details of long-term liabilities that are due after five years.
- The amount and extent of any pledges.
- Significant guarantees and commitments.
- Details of loans to, or securities and guarantees given on behalf of, members of the board, and shareholders of the company or the parent company.
- Net sales analyzed by activity and geographical areas, unless disclosure is considered to be seriously prejudicial to the company's interests.
- The average number of employees, and employee costs regarding salaries, pensions, and other social security costs. These costs should also be disclosed separately for members of the board of directors. Any profit-sharing-based bonuses for members of the board of directors must be disclosed.
- Details of shares in subsidiaries and associated companies.
- Treasury stock and the purpose of its acquisition.

**SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES
AND COMPARISON WITH U.S. GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES (GAAP)**

General Principles

81. The fundamental principles underlying the preparation of financial statements can be summarized as going concern, consistency, prudence, the accrual concept, and prohibition of netting

amounts. Deviations from these basic principles are allowed, subject to full note disclosure, only if the application of such principles would result in the financial statements not being fairly presented.

82. Under Danish GAAP, the basic principle is historical cost; however, current-value accounting is permitted in relation to a number of balance sheet items. When a choice of basis is allowed, the overriding guideline is to provide a clear insight based on overall fairness and consistency. Current-cost accounting may be applied to fixed assets other than intangible assets, marketable securities, and inventories. If current-value accounting is applied, full disclosure of the revaluation must be made and the surplus must be transferred to a separate reserve in equity. Such surpluses cannot be recognized in the income statement until the underlying assets have been realized.

83. Valuation at historic cost means valuation at acquisition or production cost. Acquisition costs may include costs incurred up to and including the time the asset is put into use. Production costs are defined as the aggregate value of raw materials, other direct costs, and a reasonable proportion of indirect costs incurred during the production period. Interest on loans to finance the production of the asset may be capitalized to the extent that such interest relates to the period of production. If interest is included in the valuation of the asset, information to that effect must be provided in the notes.

Balance Sheet Accounts

84. Fixed assets are defined as assets intended for use on a continuing long-term basis by the company. Fixed assets are classified in the balance sheet as intangible, tangible, and financial. Any asset that is not a fixed asset is a current asset.

85. Intangible fixed assets are depreciated over a maximum of five years, a period that may be extended if justified and fully explained in the notes.

86. Current assets and liabilities are valued under the historical-cost convention at their purchase price or production cost or net realizable value, whichever is lower. Loss provisions (including provisions for inventory losses) that are no longer required must be reversed. Inventory may also be stated above purchase price

or production cost but no higher than replacement value. Any write-up over cost of inventory must be transferred to a revaluation reserve in equity.

87. Formation expenses and expenses incurred in connection with an increase of the share capital may not be capitalized but must be charged to income.

88. Provisions represent obligations that are likely or certain to become payable but that are uncertain regarding the amount or timing of the settlement. Provisions may only be for specific losses, obligations, or costs if they relate to the current or prior periods. Provisions for contingencies are not allowed for accounting or tax purposes.

89. Equity consists of share capital, nondistributable reserves, and unappropriated earnings. Nondistributable reserves are revaluation reserves and share premium accounts. Other nondistributable reserves may be required by the articles of association.

90. Dividends may not exceed a level that can be sustained and justified in relation to the financial position of the company and, in parent companies, the financial position of the consolidated group.

Assets

91. Research and development costs are usually charged to expense when incurred. However, development costs may be capitalized to the extent that they represent investments that will give rise to future economic benefits. Capitalization is permitted only if the following conditions are met.

- The product or process must be clearly defined, and the related costs must be separately identifiable.
- The technical feasibility of the product or the process must be demonstrated.
- Management has expressed its intentions to complete the project and explore the market potential for the product or the process.
- A clear market potential or beneficial use must exist.
- Completion and commercial development of the process must be financially feasible.

92. Capitalized development costs should be depreciated over a maximum of five years unless such depreciation would result in the

financial statements not being fairly presented. In such cases, full disclosure must be made describing the reasons for an extended depreciation period.

Goodwill

93. Goodwill is reflected in the financial statements only if acquired and paid for. It is depreciated over a maximum period of five years unless such depreciation would result in the financial statements not being fairly presented. Alternatively, goodwill may be written off as a charge to income in the year of acquisition.

Property, Plant, and Equipment

94. Property, plant, and equipment are normally stated at historical cost, with depreciation calculated on the basis of the estimated useful economic life of the asset. In general, an estimated salvage value is not taken into account. Operating assets may be revalued at replacement cost or any other appropriate amount, provided that the increase is considered to be of a permanent nature and the amount of revaluation is transferred to a separate, nondistributable reserve in the equity section. If operating assets are revalued, depreciation should be calculated and charged on the basis of the revalued amounts.

95. Capitalization of external interest payable for the financing of assets during the production period is permitted with full disclosure.

Marketable Securities

96. Marketable securities held as current assets are stated on the balance sheet at cost, net realizable value, or any other appropriate value. Publicly quoted securities may be restated to reflect their market value, but the increase in value must be transferred to a non-distributable reserve in equity capital.

97. Long-term marketable securities may be restated at market value only to the extent that the increase in value is considered to be of a permanent nature.

Inventory

98. Inventories should be stated at the lower of cost or net realizable value. Inventory may be revalued to replacement value,

provided that the amount of revaluation is recorded in a nondistributable revaluation account in equity.

99. The first-in, first-out (FIFO), the weighted-average, and, in principle, the last-in, first-out (LIFO) methods of determining inventory cost are acceptable. However, the use of the LIFO method is not encouraged.

100. A recently issued guideline for accounting for inventories recommends that production overhead costs be included in the valuation of inventory. This principle has not been widely used in Denmark, but because of the guideline, it is expected to become common accounting practice.

Equity Investments

101. Investments in subsidiaries may be stated either at the cost of acquisition or at net asset value (the equity method). Subsidiaries are defined by law as companies in which a parent company—

- Directly or indirectly owns a majority of its voting shares.
- Can exercise control as a result of significant contracts or business arrangements.
- Has the ability to influence, directly or together with another subsidiary, the financial and operating policies of the investee.

102. If an investor directly or indirectly holds 20 percent or more of the voting power of an investee, it is generally assumed that the investor is able to significantly influence the management or operating policies of the investee. Consequently, the investee is an associated company unless it can be clearly demonstrated that this is not the case.

103. In the financial statements of an enterprise, the investment in an associated company may be stated at cost or the equity method of accounting.

104. In consolidated financial statements, investments in associated companies should be stated using the equity method. The equity method is not allowed for other entities that do not meet the criteria for being classified as subsidiaries or associated companies.

Liabilities

105. Unfunded pension obligations are rare in Denmark because pension arrangements are usually contracted with specialized institutions governed by separate legislation.

Nondistributable Reserves

106. In general, the equity capital of a limited liability company consists of the share capital, appropriated nondistributable reserves, and unappropriated earnings. Danish law recognizes the following types of nondistributable reserves:

- a. Share premium reserve (for A/S companies only)
- b. Revaluation reserves
- c. Negative goodwill
- d. Undistributed profits of subsidiaries and associated companies accounted for by the equity method

107. The articles of association of a company may require additional nondistributable reserves.

Leases

108. Financial leases are defined as leases in which the lessee acquires substantially all the rights and obligations of an owner. All other leases are considered to be operating leases. The accounting treatment for the two types of leases differs, but Danish GAAP does not formally require a different accounting treatment for the two types of leases. Consequently, it is acceptable to show leases in the financial statements as current contracted charges, supplemented by disclosure of the commitment over the term of the lease. Current practice, however, tends towards adoption of International Accounting Standards (IAS) No. 17, *Accounting for Leases*, for the accounting treatment of leases, especially in sale and leaseback transactions, under which the recognition of profit is matched against future lease costs.

Income Taxes

109. Under Danish GAAP, the minimum requirement is to provide for current income taxes payable only and to note disclosures

showing the amount and nature of deferred taxes not reflected in the income statement and balance sheet. In practice, the trend is toward full recognition of deferred income taxes in the financial statements.

110. In principle, Danish GAAP does not exclude the possibility of recognizing deferred tax assets arising from deductible temporary differences and net operating loss carryforwards; however, the practice is still only rarely seen in Danish financial statements.

Foreign Currency Translation

111. The requirements and guidelines contained in IAS No. 21, *Accounting for the Effects of Changes in Foreign Exchange Rates*, had been the only authoritative pronouncement on the subject, and the application of the standard had been supported by the Accounting Principles Board under the FSR. The Danish AG No. 9, *Foreign Currency Translation*, was adopted in May 1994.

112. Gains and losses are included in determining net income for the period in which the transactions are settled. Exceptions to this general rule pertain to certain intercompany transactions and qualifying hedge transactions. Unrealized gains and losses are accounted for using the following guidelines:

- The excess of unrealized gains over previous losses on foreign exchange balances should be appropriated to a separate non-distributable reserve.
- Deferral of unrealized exchange losses on long-term monetary assets and liabilities is not encouraged.
- Unrealized exchange differences may be taken directly to equity, but the method is not encouraged.
- In all cases, the guiding principle should be fair presentation of financial statements.

113. There are presently no specific guidelines or authoritative pronouncements for the treatment of forward exchange contracts, whether in the form of hedges or speculative contracts.

114. Such contracts are usually either disclosed solely as commitments, often supplemented by a short description of the main features of the contract, or the difference between the forward rate

and the spot rate at the inception of the contract is amortized to income over the contract period.

115. A draft accounting guideline has been issued by the ACPB under the FSR. The guideline advocates principles similar to IAS No. 21. The draft guideline does not require that translation adjustments be accumulated in a separate component of equity.

Business Segment Disclosure

116. Business segment disclosures in the United States are provided in the financial statements of a business enterprise whose securities are publicly traded. Such disclosures include disaggregated information about the enterprise's operations in different industries, its foreign operations, export sales, and its major customers. Less detailed information is required under Danish GAAP, which prescribes disclosure only of net sales attributable to various activities and geographical areas. This information may be omitted if such disclosure is deemed to be seriously prejudicial to the company, provided such omission is discussed in the notes.

Business Combinations

117. The purchase method of accounting for business combinations is the predominant method used in Denmark. The pooling-of-interest method is rarely applied. Danish GAAP requires that any excess of the cost of acquisition over the net assets acquired be assigned to identifiable assets and liabilities to reflect the fair market values of those assets and liabilities. Any remaining excess of the cost of the acquired enterprise over the sum of the amounts assigned to identifiable assets acquired, less liabilities assumed, is recorded as goodwill. If the sum of fair market values of identifiable assets acquired less liabilities assumed exceeds the cost of the acquired enterprise, the difference (negative goodwill) should be transferred to a separate reserve in equity with an appropriate heading. However, if the negative goodwill is attributable to identifiable and anticipated future costs or developments (such as recurring losses), the negative goodwill should be presented in the balance sheet as a provision. A reserve in equity relating to negative goodwill may not be distributed as a dividend. The reserve may be recorded in income (alternatively be transferred directly

to unappropriated earnings) upon a sale of all or the main part of the assets of the business acquired.

Earnings Per Share

118. Danish GAAP does not require disclosure of ratios in the financial statements. However, the financial statements of companies listed on the Copenhagen Stock Exchange must include earnings per share. Various methods are used in computing earnings per share.

Related-Party Transactions

119. Increased attention is being focused on related-party transactions and their effect on the financial statements of an enterprise. Some of the more important disclosures required under Danish GAAP include—

- Disclosure of major shareholders (5 percent or more of the capital stock).
- Separate disclosure in the balance sheet of investments in, balances payable to, or receivables from subsidiaries, associated companies, and the parent company.
- Disclosure of loans given to and guarantees provided on behalf of members of the company and its management. Such disclosures include terms and repayments made during the periods presented.
- The amount of dividends and interest received from subsidiaries.
- In parent companies, full details of subsidiary companies' purchases and sales of shares in the parent company.
- The amount of assets pledged and other guarantees furnished by a company on behalf of its subsidiary companies and other entities within the group.

There are also requirements to disclose the nature and amount of transactions between parties in the periods presented.

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

120. Several types of enterprises with limited liability are found in Denmark. The U.S. corporate entity and the Danish limited liability company are comparable in many respects. The ordinary limited liability company is found in Denmark in two forms: the public company limited by shares (*aktieselskab*—A/S) and private company limited by shares (*anpartsselskab*—APS). Other limited entities are limited partnership (*kommanditselskab*—K/S) and limited partnership company (*kommanditaktieselskab*).

121. Whereas the public and private limited company and the limited partnership company are subject to the provisions in the Danish Companies Act, other entities are governed by other legislation. The public and private limited companies are by far the most common Danish limited corporate entities.

Public Limited Company

122. A public limited company must have a minimum paid-in share capital of DKK 500,000. Only one founder is needed, but this person must be a resident of Denmark or another European Community (EC) country.

123. A general meeting must be held at least once a year and no later than six months after the end of the financial year. At the general meeting, a board of directors is appointed consisting of at least three individuals, the majority of whom must be residents of

Denmark or another EC country. The board appoints a management consisting of one or more members who must be residents of Denmark or another EC country.

124. Certain restrictions are imposed on the economic activities of a public limited company. For instance, the company may not provide loans or loan security for shareholders, directors, or general managers.

125. The shareholders' liability is restricted to paid-in capital and unpaid amounts on their shares. If members of management or the board of directors fail to comply with their legal obligations, they may be subject to fines. Directors may incur unlimited liability if they have willfully or knowingly allowed the company to trade fraudulently or with intent to defraud creditors.

Private Limited Company

126. The minimum capital of a private limited company is DKK 200,000. Most of the rules described for public limited companies also apply to private limited companies, but there are less stringent requirements concerning general meetings and no share certificates need to be issued. No board of directors is required if the capital stock does not exceed DKK 300,000.

127. The liability of shareholders and management is the same as for public limited companies. However, there are stricter rules for maintenance of capital. If the capital declines by at least half, a general meeting must be held within six months of such loss to determine what steps are needed to recover the capital or whether to dissolve the company. If a reconstruction is not successful, the Registrar of Companies may dissolve the company.

Branches of a Foreign Company

128. A foreign company may establish a branch in Denmark. It must register the branch with the Registrar of Companies and appoint a branch manager. Various information about the parent company and the branch must be filed with the Registrar, such as a certificate of incorporation of the parent company, a certified copy of the power of attorney granted to the branch manager, and the articles of association.

129. The name of the branch must indicate the company's nationality.

130. The day-to-day business of the branch is the responsibility of the branch manager. This responsibility includes an obligation to file Danish tax returns and to pay taxes. Each year, the branch must file the parent company's audited financial statements with the Registrar of Companies, together with an annual report of the branch's activities. These documents are available for public inspection. The financial statements of a branch are not subject to audit requirements and are not publicly available, except in the case of branches of banks and insurance companies.

Partnership Entities

131. A partnership is an association of two or more persons, including individuals, corporations, or other legal entities, that operates a business as co-owners for profit. Many professions operate in the form of partnerships. Several large enterprises carry on business in partnerships with two or more limited companies as partners. No specific legislation governs the operations of a partnership, but relations between the partners usually require the preparation of a formal set of agreements (bylaws). A partnership is subject to the requirements of LOEV. Minimum accounting requirements are provided in the Bookkeeping Act.

132. For tax purposes, partnerships are not treated as separate taxable entities. Instead, the individual partners are subject to taxation on their shares of the partnership profit.

Limited Partnerships

133. A limited partnership (K/S) is often used because it offers limited liability to some partners. A limited partnership comprises two or more individuals or companies, with at least one member being fully liable for all partnership liabilities (the general partner) and one or more other members being liable only to the extent of the amount of their investment (limited partners).

134. Limited partnerships are frequently formed by high-taxed individuals (as limited partners) and financial companies (as general partners) to raise funds to acquire assets such as ships, buildings, or

machinery. The acquired assets are then used for commercial leasing. No legislation governs the operations of limited partnerships. Relations between members are based on contractual agreements.

Joint Ventures

135. Joint ventures are any combination of two or more enterprises associated for the purpose of accomplishing a business objective. For legal and tax purposes, the concept of a joint venture is not recognized. Two unrelated companies conducting business as a joint venture are considered to have formed a partnership.

European Economic Interest Groupings

136. Since 1989, European Economic Interest Groupings (EEIGs) have been recognized for Danish civil law purposes. Even though Danish EEIGs and foreign EEIGs domiciled in Denmark must register with the Registrar of Companies, this does not change their tax status. EEIGs are not treated as separate taxable entities for Danish purposes, but each member is taxed on its share of the profits. Members of an EEIG domiciled in Denmark are subject to Danish tax on their share of the worldwide profits of the EEIG, but a treaty or the unilateral Danish credit for foreign taxes paid may provide relief. Nonresident members will be subject to Danish tax only on their share of Danish source profits of the EEIG. This rule applies regardless of whether the EEIG is originally registered in Denmark. Individual members pay personal income tax (51 percent to 68 percent), and corporate members pay corporate income tax (34 percent) on their share of the profits of EEIGs.

Other Forms of Business Organization

137. Sole proprietorships may elect to be registered with the Registrar of Companies. This may be done to protect the business name and to indicate the owner. Sole proprietors have unlimited liability for the obligations of their businesses. The accounts of a sole proprietorship need not be audited and are not publicly available.

138. The operations of sole proprietorships are governed by specific legislation.

139. Sole proprietors are taxed on business income and any other additional income. Since 1987, the Business Tax Act allows the owner to elect to be taxed in the same manner as enterprises operated in the form of limited companies.

Trusts and Foundations

140. Trusts do not exist as a concept in Denmark. However, private foundations that are similar to trusts may be established.

141. A foundation must meet the following requirements if it is to be treated as a separate entity:

- The foundation must have a board of directors with at least one member independent of the founder.
- The foundation must have one or more defined purposes.
- The foundation must be a separate legal entity that can obtain rights and assume liabilities.

142. If these requirements are not met, the entity is treated not as a foundation but as a flow-through entity, not segregated from the beneficiaries. Many variations of such foundations exist in Denmark.

143. Commercial foundations, which may engage in business activities, must be registered with the Trade and Companies Agency in the same manner as companies. Noncommercial foundations are not required to register. Both commercial and noncommercial foundations are taxable entities.

REQUIREMENTS FOR PUBLIC SALE OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON THE STOCK EXCHANGE

144. The legal basis for the listing of securities on the Copenhagen Stock Exchange is found in the Stock Exchange Act. Specific rules and regulations governing the process of a company going public, the management of the stock exchange, and the filing of a prospectus are included in a number of notices issued by the Ministry of Industry.

Registration Requirements for Public Sale

145. The rules for listing of securities comply with the EC directives describing the minimum requirements in connection with listing of securities throughout the EC.

146. To be listed on the stock exchange, a minimum share capital of DKK 15 million is required, and securities of at least DKK 8.5 million must be offered for sale.

Requirements for Listing Securities on the Stock Exchange

147. In order to list new securities on the Copenhagen Stock Exchange, an application and a prospectus must be filed with the exchange.

148. The application must include a brief description of the company and, if applicable, the company's position in a group structure. In addition, the stock exchange should be informed of the reason for public quotation, the size of the equity, and the amount of stock intended to be offered for public sale.

149. A draft of the prospectus should be attached to the application, which must include audited financial statements for the last three years, the articles of association of the company, and other supporting documentation.

150. The prospectus should contain the following:

- The names of the persons responsible for preparation of the prospectus and the auditors
- A statement of acceptance from the stock exchange for public quotation and the number and nominal value of shares offered
- General information about the company, including the business, share capital, assets and liabilities, financial position, and past performance
- Recent developments and future prospects of the company
- Information about management and the directors, including salaries

151. Once a company is listed it must regularly publish financial information about its activities, including major transactions and investments.

152. Companies listed on the stock exchange must publish audited annual financial statements and an abridged, unaudited semiannual income statement.

153. There are no audit requirements for semiannual statements. However, if they have been subject to audit, the auditor's report should be published together with the abridged income statement. If the stock exchange considers the information given by the company to be inadequate or misleading, it has the right to publish amendments to this information or to suspend the listing.

154. Companies already listed on the stock exchange must notify the stock exchange immediately of any decision to increase the amount of share capital. In principle, an application with an enclosed prospectus must be filed, but the stock exchange has made exceptions to this rule. The listing of a company's shares on the stock exchange does not in itself entail more rigorous accounting requirements; however, publicly quoted companies are required to fully adhere to published accounting guidelines issued by the Accounting Principles Board under the FSR.

SELECTED ECONOMIC DATA

155. Key demographic and social factors, based on 1993 Danish census data (unless otherwise indicated), are listed below.

Population (in millions)	5.2
Population under age 20	23.7%
Labor force (in millions)	2.9
Birthrate (per 1,000 population) (1992)	1.3
Population graduated from university or similar level (1991)	9.0%

156. Export and import figures of the major Danish trading partners, as of 1992, are presented as follows.

<i>Country</i>	<i>Exports (DKK Millions)</i>	<i>Imports (DKK Millions)</i>
Germany	56,355	46,882
Sweden	25,158	21,955
United Kingdom	24,108	16,633
Norway	13,731	10,953
France	13,664	11,375
Other	105,702	95,205
	<u>238,718</u>	<u>203,003</u>

157. The following is a breakdown of Danish export and import products for 1992.

<i>Product</i>	<i>Exports (DKK Millions)</i>	<i>Imports (DKK Millions)</i>
Metals and machinery and equipment	67,250	35,324
Agriculture, beverages, and tobacco	42,142	18,014
Industrial chemicals and mineral products	23,980	17,053
Ships and other transport equipment	15,061	17,502
Wood and furniture	13,267	—
Textiles	11,495	15,014
Other	65,523	100,096
	<u>238,718</u>	<u>203,003</u>

TAXES

Principal Types

158. The principal types of taxes in Denmark are corporate, individual, wealth, value-added tax (VAT), and capital gains. Other taxes are the hydrocarbon tax, real estate tax, and a range of duties and excise taxes. There is no formal social security tax; however, employers pay a minor contribution to a public pension scheme (plan).

Corporate Tax

159. Resident companies are taxed on their worldwide income, while nonresident companies and branches are taxed only on income from their Danish activities, including income from property, dividends, royalties, and the like.

160. The corporate tax rate of 34 percent is levied on the net profit of the company, including capital gains, although these gains may be computed according to the special rules and may not be taxable. Net profit is the profit shown in the company's financial statements with the appropriate adjustments necessary to compute taxable income.

161. The more important adjustments are —

- *Book depreciation.* Added back and replaced by tax depreciation.
- *Book provisions.* Added back (provisions for realized losses, however, are deductible for tax purposes).
- *Inventory reserve for tax purposes.* Up to 23 percent of the value of inventory (historical cost or replacement value) may be deducted in 1993. The tax depreciation allowance on inventory is being phased out over the next five years.
- *Dividends.* Dividends received from equity investments in domestic companies are not taxable to the parent company. For foreign subsidiaries, special qualifications apply to gain tax-free status for dividends.

162. Foreign-source income qualifies for a special reduction in the Danish tax of 50 percent of the tax attributable to the foreign-source income. This is being phased out over the next seven years.

163. Additionally, under tax treaties or Danish allowances to avoid double taxation, credit for foreign tax paid or exemption for foreign-source income may be available.

164. Tax losses may be carried forward for five years; no carry-back is allowed.

Individual Income Taxes

165. Residents of Denmark are taxed on their worldwide income, whereas nonresidents are taxed on Danish-source income only.

166. Foreign-earned income is taxable in Denmark for residents, but treaties or Danish rules provide credit for foreign taxes paid or exemption from Danish tax.

Wealth Tax

167. Residents are taxed on the net value of their worldwide wealth, whereas nonresidents are taxed on their Danish net wealth only.

Value-Added Tax

168. Value-added tax (VAT) is levied at a rate of 25 percent on all goods and services sold in Denmark. Some goods and services, such as exports, are exempt from VAT.

169. Foreign enterprises must be registered through a Danish resident representative who is responsible for collection and payment of VAT. The threshold for compulsory VAT registration is annual sales exceeding DKK 10,000.

Capital Gains Tax

170. Disposal of certain taxable assets may give rise to capital gains tax. Whereas companies pay corporation tax on such gains, individuals pay 50-percent capital gains tax. The gains (and losses) are determined based on complicated rules of indexation of historic costs with major allowances for inflation. Normally, losses may be offset against capital gains. Losses exceeding gains may be offset against ordinary income within the same fiscal year or carried forward for five years.

171. Sale of shares is tax-free if the seller is a limited company and the shares have been owned for more than three years. Profits are tax-free for an individual holding less than DKK 100,000 of quoted shares. Profits and dividends on larger holdings are taxed at a 40-percent rate.

Real Estate Tax

172. Real estate tax is imposed by local authorities at a flat percentage of the value of land. The value is determined by annual public valuation, and the rate ranges from 0.6 percent to 2.4 percent.

Interest and Royalties

173. No Danish withholding tax is imposed on interest payments unless the beneficial owner has been a Danish resident for at least five of the last ten years.

174. Royalty payments under industrial, commercial, or scientific agreements are subject to a 30-percent withholding tax. Under most tax treaties, this withholding tax is refunded. Royalties include payments for the use of intangible rights, except certain copyrights. Royalties do not include acquisitions of rights or lease payments for plant or machinery.

Tax Treaties

175. Denmark has double-tax treaties with over fifty countries. Double taxation is avoided by various credit or exemption methods. In recent treaties, Denmark has sought to provide relief by the *ordinary-credit method*. Under this method, Danish taxes are reduced by the lower of the foreign tax paid on foreign income or the Danish tax due on that income.

Tax Returns*Companies*

176. The corporate tax year is from April 1 through March 31, and the filing date for corporate tax returns is normally April 30. Taxes are usually paid in two installments, on November 20 and March 20. The financial statements filed with the tax return must contain certain minimum disclosures. In practice, the official financial statements normally are filed together with any adjustments necessary for tax purposes.

Individuals

177. The tax year for individuals is the calendar year. Individuals pay estimated taxes during the year. For employees, the tax is withheld by the employer, and others pay tax in monthly installments. The estimated tax is assessed at the end of the previous year and is normally based on the latest tax return filed.

178. All individuals file a tax return for the previous tax year in May. The tax authorities calculate the final tax for the year and issue a statement showing the amount to be paid or refunded.

APPENDIX A

Outstanding Auditing Pronouncements

The translated audit guidelines issued by the Institute of State-Authorized Public Accountants (FSR) as of June 1994 are listed below.

<u>No.</u>	<u>Title</u>
1	<i>Object and Scope of the Audit of Annual Financial Statements</i>
2	<i>Auditor's Report on Unaudited Financial Statements</i>
3	<i>The Use of Another Auditor's Work</i>
4	<i>Quality Control—Ensuring and Improving the Quality of Audits</i>
5	<i>Management Representations to the Auditor</i>
6	<i>Audit Considerations Regarding the Going Concern Basis of Accounting</i>
7	<i>The Audit Report</i>
8	<i>The Auditor's Working Papers</i>
9	<i>Audit Considerations Regarding Post-Balance-Sheet Events</i>
10	<i>The Audit of Comparative Figures in Financial Statements</i>
11	<i>The Audit of Consolidated Financial Statements</i>
12	<i>The Auditor's Review of the Directors' Report</i>
13	<i>The Audit of Accounting Estimates</i>
14	<i>The Audit of Companies Using EDP</i>
15	<i>Consulting and Other Non-Audit Services</i>
16	<i>The Auditor's Review of and Report on Budgets</i>
17	<i>Audit of EDP Based Accounting Applications</i>
18	<i>Preparation of Audit Minutes</i>
19	<i>The Auditor's Review of Interim Statements</i>

APPENDIX B

Outstanding Accounting Pronouncements

The translated accounting guidelines issued by the Institute of State-Authorized Public Accountants (FSR) as of June 1994 are listed below.

<u>No.</u>	<u>Title</u>
1	<i>The Objective and Content of Financial Statements</i>
2	<i>Disclosure of Accounting Principles Applied</i>
3	<i>Changes in Accounting Principles and Estimates</i>
4	<i>Contingent Liabilities and Post-Balance-Sheet Events</i>
5	<i>Extraordinary Items</i>
6	<i>Work in Progress Regarding Customer Contracts</i>
7	<i>Research and Development</i>
8	<i>Accounting for Inventories</i>
9	<i>Foreign Currency Translation</i>
10	<i>Directors' Report</i>

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following translated financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that Danish law requires.

AUDITOR'S REPORT

We have audited the consolidated and annual accounts of S. Dyrup & Co. A/S for 1992. Our audit has been made in conformity with generally accepted auditing standards and has included such auditing procedures as we deemed necessary. The consolidated and annual accounts have been prepared in accordance with the provisions of the applicable legislation and articles of association and, in our opinion, give a true and fair view of the group's and the parent company's assets and liabilities, financial position, and result.

Copenhagen, March 19, 1993

Ernst & Young A/S
Karl Norgaard, State-Authorized Public Accountant

KPMG C. Jespersen
Arne Nielsen, State-Authorized Public Accountant

ACCOUNTING PRINCIPLES

General

There have been no changes to the accounting principles compared to last year.

The consolidated accounts and the parent company's accounts have been prepared in accordance with the Financial Statements Act, Danish Accounting Guidelines, and related International Accounting Standards (IAS), together with the Copenhagen Stock Exchange's guidelines for listed companies.

Basis of Consolidation

The consolidated accounts include companies in which the parent company or a subsidiary is the direct owner of more than 50 percent of the voting-share capital or through participating interest or agreements exercises a controlling influence.

The consolidated accounts have been prepared on the basis of the audited accounts of the parent company and its subsidiaries and after elimination of intercompany items and unrealized gains.

The results of newly acquired subsidiaries are included in the profit and loss account from the date of acquisition.

The results of subsidiaries sold during the year are included in the profit and loss account until their respective dates of sale.

Comparative figures have not been adjusted for companies that have been sold or for companies acquired or merged.

Translation of Amounts in Foreign Currencies

The accounts of foreign subsidiaries and associated companies are translated into Danish kroner at closing rates of exchange. Exchange differences arising on conversion of the equity capital at the beginning of the year are adjusted via the parent company's equity capital.

Realized and unrealized exchange gains and losses are included in the profit and loss account.

Forward exchange transactions are valued at the rates of exchange at the balance sheet date.

Minority Interests

Included in the consolidated result and equity capital is the relative share of the subsidiaries' results and equity capital that is assigned to minority interests.

Associated Companies

Associated companies are companies in which the parent company or a subsidiary owns between 20 percent and 50 percent of the voting-share capital. The participating interests are recorded in both the consolidated accounts and in the parent company's accounts according to the equity method.

Net Turnover

The net turnover comprises sales of goods and services, which in accordance with the invoicing principle are included in the profit and loss account in the year in which invoicing and delivery take place.

Results of Subsidiaries and Associated Companies

Using the equity method, the parent company's share of the profits and losses of subsidiaries and associated companies is entered on the profit and loss account in the year earned or incurred.

The share of these companies' corporation tax is included under tax on ordinary operations and tax on extraordinary items.

Product Development

Development costs are charged to the profit and loss account in the year in which they are incurred.

Financial Items

Realized gains and losses on securities are entered in the profit and loss account. Unrealized gains are carried under revaluation reserve in equity capital. Unrealized losses that cannot be covered by previous years' revaluations are charged against profits.

Extraordinary Items

This item includes income and expenses that are not related to ordinary operations.

Corporation Tax

The parent company is taxed jointly with a number of wholly owned Danish and foreign subsidiaries. The calculated Danish tax is distributed over the jointly taxed companies in relation to their taxable income.

The calculated Danish and foreign corporation taxes and changes in deferred taxes concerning current assets are charged against profits. The taxes are distributed to the ordinary result and extraordinary items.

BALANCE SHEET

Valuation Principles

The annual accounts have been prepared on the basis of the following valuation principles.

Intangible Assets

Group goodwill, patents, trademarks, and the like are included in the balance sheet at cost less depreciation and write-downs.

Group goodwill arising from the acquisition of subsidiaries is calculated as the difference between the cost of the subsidiary's shares and the sum of the identifiable assets and liabilities at the market price at the date of acquisition.

The factors in determining depreciation on intangible fixed assets and their estimated useful economic lives are reviewed annually. If there is a permanent impairment in value, asset values are written down accordingly through the profit and loss account.

Tangible Assets

Land and buildings are recorded either at their cost or at the value resulting from a professional valuation. If the cost of land and buildings exceeds the valuation, the cost amount is used.

Land and buildings are included in the balance sheet at the above value less depreciation and write-downs. The depreciation period for property is determined by the condition and use of the property and is depreciated at a rate of 2 percent to 4 percent annually.

Plant and machinery, other fixtures and fittings, and tools and equipment are valued at purchase price less ordinary depreciation calculated over ten years. Individual assets with a life of three years or less and assets not exceeding DKK 35,000 are charged at full cost price in the year of acquisition.

Other Securities and Participating Interests

Listed securities and participating interests are recorded at their listed prices at the end of the financial year.

Unlisted securities and participating interests are recorded at their purchase price unless prudent accounting practice suggests a write-down.

CURRENT ASSETS

Stocks

Stocks are valued using the first-in, first-out (FIFO) principle. Raw materials are recorded at their purchase price or net realizable value, if

lower. Finished goods and work in progress are recorded at cost, including direct materials, but excluding labor and indirect production overhead. Obsolete goods are written down based on individual assessment.

PROVISIONS

Deferred Tax

The provision includes the calculated deferred tax on current assets. The tax is calculated using the actual tax rate.

Cash-Flow Analysis

The group cash-flow analysis, set up according to the indirect method, shows the liquidity from operations, investments, financing, increases or decreases in the liquidity for the year, and the liquidity at the beginning and end of the year.

Liquidity From Operations

Liquidity from operations is calculated as the profit on ordinary activities before tax, adjusted for noncash operating items and changes in working capital.

Investments

Investments comprises acquisitions and disposals of intangible, tangible, and financial fixed assets.

Financing

Includes financing from shareholders and raising and repayments of long-term debt.

PROFIT AND LOSS ACCOUNT **For the year ended December 31, 1992**

	<i>Note</i>	<i>Parent Company</i>		<i>Group</i>	
		<i>1991</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1991</i> <i>(DKK 1,000)</i>
Net turnover	1	436,514	631,810	1,278,437	1,194,262
Production costs		310,784	409,351	722,198	738,275
Gross profit		125,730	222,459	556,239	455,987
Cost of sales		63,132	118,716	314,426	256,879
Administrative expenses		37,677	44,385	115,655	110,337
Profit on primary operations		24,921	59,358	126,158	88,771
Other income		0	906	5,690	4,321
Share of pre-tax profits of subsidiaries		14,651	27,588	0	0
Share of pre-tax profits of associated companies		3,540	4,223	4,223	3,540
Profit before interest		43,112	92,075	136,071	96,632
Interest income and similar income	2	3,755	5,209	19,729	9,730
Interest expenses and similar charges	3	14,795	19,738	52,155	53,068
Profit on ordinary activities		32,072	77,546	103,645	53,294
Share of taxation, subsidiaries		13,541	13,824	0	0
Share of taxation, associated companies		1,189	1,540	0	0
Corporation taxes	4	617	11,560	37,943	23,135
Profit before extraordinary items		16,725	50,622	65,702	30,159
Share of extraordinary items, subsidiaries		(4,454)	2,002	0	0
Extraordinary income	5	28,742	0	4,045	31,401
Extraordinary costs	6	19,490	0	0	26,603
Profit on extraordinary items		4,798	2,002	4,045	4,798
Group companies' profits after tax		21,523	52,624	69,747	34,957
Minority shareholders' share of subsidiaries' profits				17,123	13,434
S. Dyrup & Co. A/S's share of group profit				52,624	21,523

BALANCE SHEET
At December 31, 1992 Assets

	<i>Note</i>	<i>Parent Company</i>		<i>Group</i>	
		<i>1991</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1991</i> <i>(DKK 1,000)</i>
Fixed assets					
Trademarks and distribution rights	7	49,237	76,760	167,173	108,275
Leasehold improvements	7	0	0	155	225
Intangible assets, total		49,237	76,760	167,328	108,500
Land and buildings	7	128,538	130,246	176,595	189,390
Plant and machinery	7	53,270	39,789	69,252	87,158
Other fixtures and fittings, tools and equipment	7	10,336	9,636	28,802	30,732
Current investments in fixed assets		521	2,751	4,062	2,811
Tangible assets, total		192,665	182,422	278,711	310,091
Participating interests in subsidiaries		91,164	99,534	0	0
Participating interest in associated companies		13,553	0	0	13,553
Other investments	8	1,178	1,346	1,346	1,178
Financial assets, total		105,895	100,880	1,346	14,731
Total fixed assets		347,797	360,062	447,385	433,322
Current assets					
Raw materials		28,042	31,344	54,802	56,886
Work in progress		3,676	4,019	8,343	8,068
Finished goods and goods for resale		46,338	57,951	129,560	124,795
Total stocks		78,056	93,314	192,705	189,749
Trade debt		40,798	34,265	197,673	208,640
Amounts owed by affiliated companies		45,125	53,104	1,148	0
Other debt		15,051	24,999	48,148	34,540
Prepayments and accrued income		2,891	2,783	2,783	2,891
Total debt		103,865	115,151	249,752	246,071
Securities		1,061	924	7,145	38,170
Cash in bank and in hand		8,117	12,288	121,978	61,577
Total current assets		191,099	221,677	571,580	535,567
Total assets		538,896	581,739	1,018,965	968,889

(Continued on next page.)

BALANCE SHEET At December 31, 1992 Liabilities

	Note	<i>Parent Company</i>		<i>Group</i>	
		<i>1991</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1991</i> <i>(DKK 1,000)</i>
Equity capital	9				
Share capital		80,000	80,000	80,000	80,000
Revaluation reserve		86,785	86,951	86,951	86,785
Other reserves		<u>111,794</u>	<u>143,183</u>	<u>143,183</u>	<u>111,794</u>
Parent company's share of equity capital		278,579	310,134	310,134	278,579
Minority interests	10	<u>0</u>	<u>0</u>	<u>60,679</u>	<u>48,591</u>
Total equity capital		<u>278,579</u>	<u>310,134</u>	<u>370,813</u>	<u>327,170</u>
Provisions					
Intercompany profit on stocks in consolidated companies		9,752	17,902	0	0
Deferred tax		<u>0</u>	<u>1,423</u>	<u>1,623</u>	<u>0</u>
Total provisions		<u>9,752</u>	<u>19,325</u>	<u>1,623</u>	<u>0</u>
Creditors					
Mortgage debt	11	9,579	9,223	32,160	22,646
Other long-term creditors	12	<u>79,063</u>	<u>72,062</u>	<u>190,567</u>	<u>193,631</u>
Total long-term creditors		<u>88,642</u>	<u>81,285</u>	<u>222,727</u>	<u>216,277</u>
Bank loans		23,764	16,237	129,521	155,223
Short-term part of long-term debt		6,198	7,356	13,880	13,487
Suppliers		37,692	40,450	108,891	116,576
Amounts owed to affiliated companies		3,831	15,000	22,720	14,179
Accrued corporation tax		0	10,573	25,151	19,643
Other creditors	13	80,182	67,956	110,216	96,078
Accruals and deferred income		1,853	1,420	1,420	1,853
Dividend payable		<u>8,403</u>	<u>12,003</u>	<u>12,003</u>	<u>8,403</u>
Total short-term creditors		<u>161,923</u>	<u>170,995</u>	<u>423,802</u>	<u>425,442</u>
Total creditors		<u>250,565</u>	<u>252,280</u>	<u>646,529</u>	<u>641,719</u>
Total liabilities		<u>538,896</u>	<u>581,739</u>	<u>1,018,965</u>	<u>968,889</u>

CASH FLOW ANALYSIS

1992

	<i>Parent Company</i>		<i>Group</i>	
	<i>1991</i>	<i>1992</i>	<i>1992</i>	<i>1991</i>
	<i>(DKK</i>	<i>(DKK</i>	<i>(DKK</i>	<i>(DKK</i>
	<i>1,000)</i>	<i>1,000)</i>	<i>1,000)</i>	<i>1,000)</i>
Effect on liquidity of operating items				
Generated/absorbed by operations				
Pre-tax profit for the year	36,870	79,548	107,690	58,092
Share of profit/(loss) of subsidiaries	(10,197)	(29,590)	0	0
Share of profit/(loss) of associated companies	(3,540)	(4,223)	(4,223)	(3,540)
Depreciation	36,779	34,982	59,047	61,744
Taxes	(10,596)	(941)	(25,914)	(15,144)
Generated/absorbed by operations, total	49,316	79,776	136,600	101,152
Working capital movements				
Increase/(decrease) in stocks	(7,602)	(15,258)	(2,956)	(44,446)
Increase/(decrease) in trade debt	(23,250)	6,533	10,967	(75,330)
Increase/(decrease) in amounts owed by affiliated companies	(32,032)	3,190	7,393	0
Increase/(decrease) in amounts owed by associated companies	1,907	0	0	1,983
Increase/(decrease) in other debt	(12,949)	(9,948)	(13,608)	(27,619)
Increase/(decrease) in accruals and deferred income	(435)	(325)	(325)	1,537
Increase/(decrease) in suppliers	16,662	2,758	(7,685)	38,244
Increase/(decrease) in other short-term debt	17,488	(2,211)	13,463	63,277
Working capital movements, total	(40,211)	(15,261)	7,249	(42,354)
Effect on liquidity of operating items	9,105	64,515	143,849	58,798
Effect on liquidity of nonoperating items				
Intangible assets	(83,000)	(38,235)	(74,145)	(236,794)
Tangible assets	(63,446)	(14,027)	(12,350)	(135,496)
Financial assets	(53,343)	13,907	(719)	7,955
Generated/absorbed by nonoperating items, total	(199,789)	(38,355)	(87,214)	(364,335)
Effect on liquidity of operating items and nonoperating items	(190,684)	26,160	56,635	(305,537)
Financial movements				
Long-term credit	(6,012)	(6,199)	6,843	91,104
Capital increase	118,619	0	0	118,619
Dividend paid for prior years	(7,200)	(8,400)	(8,400)	(7,200)
Financial movements, total	105,407	(14,599)	(1,557)	202,523
Increase/(decrease) in liquidity	(85,277)	11,561	55,078	(103,014)
Net liquidity, beginning of year	70,691	(14,586)	(55,476)	47,538
Net liquidity, year-end	(14,586)	(3,025)	(398)	(55,476)

Net liquidity is defined as cash at bank and in hand and bonds, less foreign currency loans and short-term bank debt.

NOTES ON THE ANNUAL ACCOUNTS 1992

	<i>Note</i>	<i>Parent Company</i>		<i>Group</i>	
		<i>1991</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1992</i> <i>(DKK 1,000)</i>	<i>1991</i> <i>(DKK 1,000)</i>
Net turnover	1				
Group turnover:					
In Denmark		0	0	313,369	294,739
Outside Denmark		0	0	965,068	899,523
Total group turnover		0	0	1,278,437	1,194,262
Interest income and similar income	2				
Interest on securities		265	191	2,025	266
Interest income, etc.		3,119	4,007	14,528	8,185
Gain on securities		35	19	2,114	351
Foreign exchange gain		336	992	1,062	928
Interest income and similar income, total		3,755	5,209	19,729	9,730
Interest expenses and similar charges	3				
Interest expenses		14,411	18,198	50,117	52,229
Foreign exchange loss		384	1,540	2,038	839
Interest expenses and similar charges, total		14,795	19,738	52,155	53,068
Corporation taxes	4				
Tax on taxable income for the year		873	10,185	34,792	23,925
Adjustment, deferred tax		0	1,423	1,623	0
Tax reimbursement under joint taxation		(28)	(1,576)	0	0
Tax, previous years		(228)	1,528	1,528	(790)
Corporation taxes, total		617	11,560	37,943	23,135
Taxes paid for the year		10,596	941	25,914	15,144
Extraordinary income	5				
Profit on sale of tangible assets		0	0	4,045	2,659
Profit on sale of financial assets		28,742	0	0	28,742
Extraordinary income, total		28,742	0	4,045	31,401
Extraordinary costs	6				
Write-down of tangible assets		14,490	0	0	15,364
Redundancy payments		5,000	0	0	11,239
Extraordinary costs, total		19,490	0	0	26,603

NOTES ON THE ANNUAL ACCOUNTS For 1992

Note 7. Tangible and Intangible Assets (DKK 1,000)

<i>Group</i>	<i>Tangible Assets</i>			<i>Intangible Assets</i>			<i>Total Tangible and Intangible Assets</i>
	<i>Land and Buildings</i>	<i>Plant and Machinery</i>	<i>Others</i>	<i>Trademarks, etc.</i>	<i>Goodwill</i>	<i>Leasehold Improvements</i>	
Total purchase price January 1, 1992	119,393	206,628	58,505	112,295	123,872	1,206	621,899
Additions and improvements in 1992	7,486	12,028	13,973	75,167	0	171	108,825
Disposals in 1992	5,695	14,378	10,142	865	0	0	31,080
Total purchase price December 31, 1992	121,184	204,278	62,336	186,597	123,872	1,377	699,644
Revaluations, prior years	133,077	14,562	3,100	0	0	0	150,739
Revaluations, current year	3,470	1,911	1,081	0	0	0	6,462
Total revaluations December 31, 1992	136,547	16,473	4,181	0	0	0	157,201
Purchase price including revaluations	257,731	220,751	66,517	186,597	123,872	1,377	856,845
Total depreciation and write-downs January 1, 1992	74,907	130,878	32,326	4,329	123,872	1,000	367,312
Adjustment, additions, and disposals	1,573	5,210	5,637	54	0	0	12,474
Depreciation and write-downs in 1992	73,334	125,668	26,689	4,275	123,872	1,000	354,838
Total depreciation and write-downs	7,802	25,831	11,026	15,149	0	222	60,030
Book value December 31, 1992	81,136	151,499	37,715	19,424	123,872	1,222	414,868
Depreciation and write-downs in 1992	176,595	69,252	28,802	167,173	0	155	441,977
Gains/losses on replacement	7,802	25,831	11,026	15,149	0	222	60,030
Included under the following items:	3	188	(1,120)	(54)	0	0	(983)
Production costs	7,805	26,019	9,906	15,095	0	222	59,047
Cost of sales	5,020	23,387	2,798	0	0	0	31,205
Administrative expenses	1,901	649	3,972	15,095	0	101	21,718
Effect on profit for the year	884	1,983	3,136	0	0	121	6,124
	7,805	26,019	9,906	15,095	0	222	59,047

(Continued on next page.)

<i>Parent Company</i>	<i>Tangible Assets</i>			<i>Intangible Assets</i>			<i>Total Tangible and Intangible Assets</i>
	<i>Land and Buildings</i>	<i>Plant and Machinery</i>	<i>Others</i>	<i>Trademarks, etc.</i>	<i>Goodwill</i>	<i>Leasehold Improvements</i>	
Total purchase price January 1, 1992	64,836	136,540	17,702	50,500	32,500	874	302,952
Additions and improvements in 1992	5,991	4,933	3,473	37,703	1,330	66	53,496
Disposals in 1992	0	1,207	3,418	865	0	0	5,490
Total purchase price December 31, 1992	70,827	140,266	17,757	87,338	33,830	940	350,958
Revaluations, prior years	106,644	0	0	0	0	0	106,644
Revaluations, current year	0	0	0	0	0	0	0
Total revaluations December 31, 1992	106,644	0	0	0	0	0	106,644
Purchase price including revaluations	177,471	140,266	17,757	87,338	33,830	940	457,602
Total depreciation and write-downs January 1, 1992	42,942	83,270	7,366	1,263	32,500	874	168,215
Adjustment, additions, and disposals	0	620	2,425	55	0	0	3,100
Depreciation and write-downs in 1992	42,942	82,650	4,941	1,208	32,500	874	165,115
Total depreciation and write-downs	4,283	17,827	3,180	9,370	1,330	66	36,056
Book value	47,225	100,477	8,121	10,578	33,830	940	201,171
Depreciation and write-downs in 1992	130,246	39,789	9,636	76,760	0	0	256,431
Gains/losses on replacement	4,283	17,827	3,180	9,370	1,330	66	36,056
	0	185	(1,205)	(54)	0	0	(1,074)
	4,283	18,012	1,975	9,316	1,330	66	34,982
Included under the following items:							
Production costs	4,088	16,179	330	0	0	0	20,597
Cost of sales	138	444	930	9,316	0	0	10,828
Administrative expenses	57	1,389	715	0	0	66	2,227
Effect on profit for the year	4,283	18,012	1,975	9,316	0	66	33,652

Note 8. Participating Interests

	<i>Parent Company</i>			<i>Group</i>	
	<i>Other Companies (DKK 1,000)</i>	<i>Associated Companies (DKK 1,000)</i>	<i>Subsidiaries (DKK 1,000)</i>	<i>Associated Companies (DKK 1,000)</i>	<i>Other Companies (DKK 1,000)</i>
Total purchase price					
January 1, 1992	5,781	4,943	128,936	4,943	5,781
Additions in 1992	0	0	4,572	0	0
Disposals in 1992	0	(4,943)	(3,864)	(4,943)	0
Total purchase price					
December 31, 1992	5,781	0	129,644	0	5,781
Revaluations/write-					
downs, prior years	(4,603)	8,610	(37,772)	8,610	(4,603)
Adjustments in 1992	168	(8,610)	7,662	(8,610)	168
Total revaluations					
December 31, 1992	(4,435)	0	(30,110)	0	(4,435)
Book value					
December 31, 1992	1,346	0	99,534	0	1,346

Change in Equity Capital

	<i>Note</i>	<i>Parent Company</i>		<i>Group</i>	
		<i>1991 (DKK 1,000)</i>	<i>1992 (DKK 1,000)</i>	<i>1992 (DKK 1,000)</i>	<i>1991 (DKK 1,000)</i>
Equity capital January 1 excluding minority shares	9	229,058	278,579	278,579	229,058
Share capital					
Share issue August 8, 1991		20,000	0		
Share premium reserve					
Premium on shares issued August 8, 1991		100,000	0		
Taxes incurred on issue		(1,381)	323		
Transfer to other reserves		(130,817)	(323)		
Revaluation reserve, affiliated companies					
Provision per profit and loss account		23,132	18,098		
Value adjustment, beginning of year		1,110	(6,260)		
Adjustment, affiliated companies		(98,624)	(2,796)		
Transfer to other reserves		44,891	(9,042)		
Revaluation reserves					
Revaluation, land, and buildings		47,907	0		
Value adjustment, other investments		(114)	168		

(Continued on next page.)

Change in Equity Capital (cont.)

	<i>Note</i>	<i>Parent Company</i>		<i>Group</i>	
		<i>1991</i> <i>(DKK</i> <i>1,000)</i>	<i>1992</i> <i>(DKK</i> <i>1,000)</i>	<i>1992</i> <i>(DKK</i> <i>1,000)</i>	<i>1991</i> <i>(DKK</i> <i>1,000)</i>
Other reserves					
Profit on sale of financial assets		0	826		
Amortization of goodwill		(32,500)	(1,330)		
Transfer from premium on share issue		130,817	323		
Transfer from revaluation reserve affiliated companies		(44,891)	9,042		
Provision for distribution of profit		(10,009)	22,526	23,238	(10,009)
Other movements		0	0	8,317	59,530
Equity capital December 31, excluding minority shares		<u>278,579</u>	<u>310,134</u>	<u>310,134</u>	<u>278,579</u>
Minority interests	10				
Minority interests January 1				48,591	22,353
Share of profit for the year				17,123	13,434
Share of other changes in affiliated companies				(5,035)	12,804
Minority interests December 31				<u>60,679</u>	<u>48,591</u>
Mortgage debt	11				
Closing balance		9,902	9,579	34,382	25,705
Debt due in 1993		(323)	(356)	(2,222)	(3,059)
		<u>9,579</u>	<u>9,223</u>	<u>32,160</u>	<u>22,646</u>
Other long-term creditors	12				
Closing balance, other financial institutions		84,938	79,062	202,225	204,059
Debt due in 1993		(5,875)	(7,000)	(11,658)	(10,428)
		<u>79,063</u>	<u>72,062</u>	<u>190,567</u>	<u>193,631</u>
Other creditors, short-term	13				
Financial creditors		1,964	4,563	5,106	4,751
PAYE tax, etc.		7,941	5,307	9,196	11,171
Holiday pay, etc., payable		9,314	9,972	17,946	14,622
Provision—subsidiaries		42,808	40,875	0	0
Costs payable		17,222	6,416	65,501	60,199
Interest payable		44	103	11,023	3,338
Wages and salaries payable		889	720	1,444	1,997
		<u>80,182</u>	<u>67,956</u>	<u>110,216</u>	<u>96,078</u>

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States With Auditing Standards in Denmark

<u>General Information</u>	<u>Answer</u>	<u>Comments</u>
1. Is a primary purpose of an audit —		
A. To attest to information used by investors, creditors, etc.?	Yes	
B. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
C. For tax purposes?	No	
2. A. The United States has ten generally accepted auditing standards (GAAS), including general standards, standards of fieldwork, and standards of reporting. Those standards and their interpretations constitute U.S. GAAS, which have been published in <i>Codification of Statements on Auditing Standards</i> . Do GAAS exist in Denmark?	Yes	2A,B. The Danish Institute of State-Authorized Public Accountants (FSR) has issued nineteen audit guidelines (AGs) on specific auditing and reporting topics. These guidelines primarily deal with recommended auditing procedures. In addition, the Expert Opinion Committee (EOC), "Responsumudvalget," under the FSR, publishes their rulings on specific

Notes:

This checklist does not include the latest GAAS pronouncements issued in the United States. Checklist was completed from the perspective of performing a local audit, not a referral audit. AU section numbers refer to sections in the *Codification of Statements on Auditing Standards* (New York, AICPA), unless otherwise noted.

<u>General Information</u>		<u>Answer</u>	<u>Comments</u>	
B. If so, are they published?		Yes		
C. If auditing standards exist in Denmark, are they similar to U.S. standards?		Yes		
3. Who is responsible for promulgating auditing standards (the profession, a governmental body, etc.)?				3. Primarily the profession.
U.S. Generally Accepted Auditing Standards		Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice
4. Do auditors confirm receivables? (AU sec. 330)		Yes. EOC pronouncements	✓	
5. Do auditors observe inventory counts? (AU sec. 331)		Yes. EOC pronouncements	✓	
6. Do auditors receive written representations from management? (AU sec. 333)		Yes. AG No. 5	✓	
7. Do auditors receive written representations from management's legal counsel? (AU sec. 337)		No		✓
8. A. Do auditors prepare and maintain working papers? (AU sec. 339)		Yes	✓	
B. If so, do they include a written audit program outlining		Yes	✓	
				7. Although the practice of obtaining written representations is increasing, oral statements are still predominant.
				8B. This is predominant practice on major engagements and

issues of auditing and accounting raised by members of the public, public authorities, or members.

informally prepared on smaller assignments.

procedures to be performed?
(AU sec. 339)

9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, extent, and timing of tests to be performed? (AU sec. 319)	Yes	✓
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? B. If so, is the communication documented? (AU sec. 325)	Yes	✓
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU sec. 350)	Yes	✓
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU sec. 316)	Yes	✓
13. A. Does the auditor perform procedures to identify related-party transactions and their effects on the financial statements? (AU sec. 334)	Yes	✓

10B. Communication is documented in a management letter or the audit minutes.

12. An audit should not be designed to identify errors or irregularities specifically, since this is a responsibility of the board and management of the company. The auditor, however, must be alert for errors or irregularities that would have a material effect on the financial statements.

13A. Done primarily to ensure that the required financial statement disclosures are presented.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, list the procedures.					
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU sec. 331)	Yes	✓			13B. No formalized procedures are defined.
15. A. Are specific auditing procedures applied to transactions occurring after the balance-sheet date? (AU sec. 560)	Yes	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU sec. 560)	Yes	✓			
16. The concept of <i>joint auditors</i> in certain countries (for example, the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the United States. Does the concept of <i>joint auditor</i> exist in Denmark?	Yes		✓		16. This is required for public companies, banks, and insurance companies.

<p>17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU sec. 543)</p>	Yes	✓	<p>17B. Even though some auditors do mention in the audit report that the audits of some subsidiaries/associated companies were conducted by other auditors, the principal auditor will give his or her opinion on the financial position of the group as a whole and thus assume responsibility for the work of the other auditors.</p>
<p>A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?</p>	No		
<p>B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?</p>			
<p>18. A. Is there a standard form of auditor's report? (AU sec. 508)</p>	Yes	✓	<p>18B. See paragraphs 60 through 62 of text.</p>
<p>B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU sec. 508)</p>			
<p>19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU sec. 508)</p>	No	✓	<p>19A,B. Any change in significant accounting principles and its effect on the financial statements are required to be disclosed in the notes to the financial statements. The auditor is not required to express an opinion on the consistency of application of accounting principles.</p>

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	See comment				
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU sec. 530)	No	✓			20B. The board and directors of the company are responsible for preparation of the financial statements. The auditor is responsible for carrying out the audit of financial statements. The audit report should not be dated before the financial statements have been signed by the board and directors of the company. This date will typically not coincide with the last day of fieldwork.
B. If not, what date is used?	See comment				
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. (Code of Professional Conduct, and Rule 101 and its interpretations)	Yes	✓			21. This is addressed in section 13 of LOSR, which relates to certified public accountants.
22. Please describe any standards for Denmark for which there are no corresponding U.S. standards.					22. Guideline No. 18, <i>Preparation of Audit Minutes</i> . See paragraph 64 of text.

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States With Accounting Principles in Denmark

<u>General Information</u>	<u>Answer</u>	<u>Comments</u>
1. Are there generally accepted accounting principles (GAAP) in Denmark? If so, are they codified?	Yes	1. ARL supplemented by accounting guidelines (ACGs) and interpretations of International Accounting Standards (IAS).
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. They are promulgated by both the legislature and the profession.

Notes:

References in the US: generally accepted accounting principles column are to sections in the Financial Accounting Standards Board's (FASB's) *Current Text*, unless otherwise noted.

This checklist does not include the latest GAAP pronouncements issued in the United States.

ARL: The Financial Statements Act of June 10, 1981, with subsequent amendments and Supplemental Regulation of June 13, 1990 ("Bekg").

IAS: International Accounting Standards are issued by the International Accounting Standards Committee.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical-cost basis?	Yes. ARL chapter 5 and ACG No. 1	✓			
4. Are interest costs—incurred while activities that are necessary to get an asset ready for its intended use are in progress—capitalized as part of the historical cost of an asset? (I67)	No. ARL article 27		✓		
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. ARL articles 30 and 34	✓			5A. Revaluation is allowed for tangible and financial fixed assets, inventories, and publicly quoted securities.
B. If so, define the basis.					5B. Fixed assets should reflect permanent increases in the value of the assets. Current assets should reflect current values. Surplus and deficits on revaluation are treated as changes in a separate revaluation reserve in equity.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair-market value of the assets involved when that value is determined within reasonable limits? (N35)	No		✓		A deficit in revaluation of individual assets (to the extent not covered by a previous revaluation of the same assets) should be charged to income.

7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (FASB Statement of Financial Accounting Concepts No. 5)	Yes. ARL article 22 and ACG No. 1	✓	
8. Are costs recorded when incurred rather than when money is paid? (FASB Statement No. 5)	Yes. ARL article 26 and ACG No. 1	✓	
9. A. Are consolidated financial statements required when one company has control over another company? (C51) B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. ARL article 2 Yes. ARL article 1 and Companies Act article 2	✓ ✓	
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51) B. If so, list them.	Yes. ARL article 2a-2c	✓	<p>10B. Unlisted Danish parent companies can omit preparation and filing of consolidated financial statements if—</p> <ul style="list-style-type: none"> • The parent company itself is a subsidiary of another company that is required to prepare consolidated financial statements. • A subsidiary is immaterial for a fair presentation of the consolidated entity. • The subsidiary operates under severe restrictions that

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncements</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees if the invest-ments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (B2)	No	✓			significantly impair control by the parent company over the subsidiaries' assets, operations, and management for the foreseeable future. <ul style="list-style-type: none">• The necessary information and accounting reporting cannot be obtained within a reasonable time and without undue cost.• The investment is held exclusively with a view to subsequent resale.• Subsidiaries engage in activities that are incommensurable with those of the parent or the group.
12. Are there two methods of account-ing for business combinations – the pooling-of-interests method and the purchase method? (B50)	Yes. IAS 22	✓			12. The pooling-of-interests method is seldom used.

13. Is the method used to account for a business combination disclosed? (B50)	Yes. IAS 22 and ACG No. 2	✓	
14. A. Do criteria exist for treatment of business combinations as a pooling of interest? (B50) B. If so, list the criteria.	Yes. IAS 22	✓	<p>14B.</p> <ul style="list-style-type: none"> • Continuing mutual sharing in risks and benefits • Exchange of voting shares only • Combination of enterprises, including management, effectively into one entity
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60) B. If so, is it amortized as a charge to income over the period estimated to be benefitted?	Yes. ARL article 36 Yes. ARL article 36	✓ ✓	<p>15B. Goodwill may be amortized over a maximum of five years, unless such amortization would result in an unfair presentation of the financial statements. Extended amortization periods should be explained and justified.</p>
16. Are the following disclosures made for related-party transactions: (R36) a. The nature of the relationship? b. A description of the transactions for the periods presented?	Yes Yes	✓ ✓	<p>16b. This is done only for loans provided to or guarantees given on behalf of directors, management, or shareholders of the company or its parent company.</p>

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncements</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
c. The amounts of the transactions for the periods presented?	Yes. ARL articles 46, 46a, and 51	✓			16c. Required disclosures are— <ul style="list-style-type: none"> • Amounts of security provided on behalf of subsidiaries and other entities in a group. • Amounts of commitments made for and on behalf of a parent company and subsidiaries. • Amounts of loans provided to or guarantees given on behalf of members of management or the board and shareholders together with schedules of repayments and terms.
d. The amounts due to or from related parties at the balance-sheet date?	Yes. ARL article 46a	✓			
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. ARL article 20 and ACG No. 4	✓			
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. ARL articles 46 and 56 and ACG No. 4	✓			

19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? (In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.) (C59)	✓	Yes. ARL article 46 and ACG No. 4
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)		
a. Sales to outsiders and inter-segment sales?	No	✓
b. Operating profit or loss?	No	✓
c. Identifiable assets and related depreciation, depletion, and amortization expense?	No	✓
d. Capital expenditures?	No	✓
e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No	✓
f. Effect of a change in accounting principle?	No	✓
21. A. Are there any requirements to disclose the effects of inflation? (C28)	No	✓
B. If so, list the disclosures required.		
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	✓	Yes. ARL article 16 and Bekg. article 5

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05) B. If not, how are noncurrent assets defined?	Yes. ARL article 16 by inference and Bcgs article 5	✓			
24. A. Is an allowance established for uncollectible receivables? (C59) B. If so, what is the basis (for example, percentage of sales, aging of receivables) for calculating the allowance?	Yes. ARL article 33	✓			24B. The most appropriate method applicable under the circumstances. In theory, the evaluation must be based on an assessment of the individual balances.
25. Are receivables and payables not arising in the normal course of business or subject to normal trade terms, recorded at an amount that takes imputed interest into account? (I69)	No		✓		
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78) B. If not, how is inventory stated? C. Is the basis disclosed?	Yes. ACG No. 8	✓			
27. Does cost for inventory purposes include — (I78) a. Materials?	Yes. ARL article 42 and ACG No. 8 Yes. ARL 31 and ACG No. 8	✓ ✓			

<i>b.</i> Direct labor?	Yes. ARL 31 and ACG No. 8	✓	
<i>c.</i> Factory overhead?	Yes. ARL 31 and ACG No. 8	✓	
<i>d.</i> If the answer to <i>c</i> is yes, is an allocable share of all factory overhead included?	See comment	✓	27 <i>c,d.</i> Only factory overhead directly attributable to the production of the goods is included.
28. A. Are the following cost methods permitted for reporting purposes: (178)			
<i>a.</i> First-in, first-out (FIFO)?	Yes. ARL 32 and ACG No. 8	✓	
<i>b.</i> Last-in, first-out (LIFO)?	No. ACG No. 8		✓
<i>c.</i> Average cost?	Yes. ARL 32 and ACG No. 8	✓	
B. Are the same methods permitted for tax purposes?	Yes	✓	
29. Is the inventory costing method used disclosed? (178)	Yes. ARL article 42 and ACG No. 8	✓	
30. A. Are fixed assets depreciated over their estimated lives by systematic charges to income? (D40)	Yes. ARL article 42	✓	
B. If so, is an accumulated depreciation account used?	Yes. Bckg. article 6	✓	
31. Are disclosures made of — (D40)			
<i>a.</i> Depreciation expense for the period?	Yes. Bckg. article 6	✓	
<i>b.</i> Balances of major classes of depreciable assets?	Yes. Bckg. article 6	✓	
<i>c.</i> The method used to compute depreciation for the major asset classes?	Yes. ARL article 42	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
d. Accumulated depreciation, either by major class of assets or in total?	Yes. Bekg. article 6	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	No. IAS No. 17	✓			32A,B. Operating leases are all leases other than finance leases. Commitments must be disclosed.
B. If so, list the criteria and disclosure requirements.					
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	No. IAS No. 17		✓		33A,B. A lease would be classified as other than operating when the lessee has the legal right to acquire an asset on termination of the agreement at a price below market value or lease period equals the economic life of the asset. Disclosure requirements are similar to those of U.S. GAAP.
B. If so, list the criteria, type of lease, and disclosure requirements.					
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. Bekg. article 5	✓			
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	Yes	✓			
B. If not, how are noncurrent liabilities defined?					
36. For notes payable, is disclosure made of — (C32)					

37.	a. Interest rates?	No	✓	36a. Disclosure is made only for notes payable to related parties.
	b. Maturities?	Yes. ARL article 46	✓	36b. Disclosure is made only for maturities exceeding five years.
	c. Assets pledged as collateral?	Yes. ARL article 46	✓	
	d. Covenants to reduce debt?	No	✓	
	e. Minimum working capital requirements?	No	✓	
	f. Dividend restrictions?	No	✓	
38.	A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. ACG No. 6	✓	37A,B. ACG No. 6 recommends the use of the percentage-of-completion method provided that the estimates of cost to complete and extent of progress towards completion of the long-term contracts are reasonably dependable.
	B. If so, what are the criteria for determining the method to be used?			
39.	A. Are research costs charged to expense when incurred? (R50)	Yes. ACG No. 7	✓	
	B. Are such costs disclosed?	No	✓	
40.	A. Are development costs charged to expense when incurred? (R50)	Optional. ARL article 36 and ACG No. 7	✓	
	B. Are such costs disclosed?	See comment		39B. If development costs are capitalized, the amount should be reflected on the balance sheet. If not, no disclosure of the amounts is required.
40.	A. In the United States, events and transactions are presented in the income statements as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur	Yes. ARL article 24 and ACG No. 5	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
in the foreseeable future. Do similar criteria for identifying extraordinary items exist in Denmark? (117)					
B. If not, what are the criteria?					
41. Are material events or transactions that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet the criteria for classification as extraordinary), shown as a separate component of income or expense? (122)	Yes, ARL article 4	✓			41. Items that are unusual in size and incidence but not considered extraordinary items since they are derived from the ordinary activities of the business may require separate disclosure for the financial statements to present a true and fair view.
42. A. Are disclosures required for—					
a. Extraordinary items? (117)	Yes, ARL article 24 and ACG No. 5	✓			
b. Material events or transactions not classified as extraordinary items? (122)	Yes, ARL article 4	✓			
c. Disposal of a segment of a business? (113)	Yes, ARL article 4	✓			
B. Indicate the financial statement presentation of these items.					
					42B. The presentation includes—
					• Profit before extraordinary items.
					• Extraordinary items.
					• Profit after extraordinary items.
					• Taxation relating to extraordinary items may be presented on the face of the income

statement. If not, the tax effect of extraordinary items should be disclosed in the notes to the financial statements.

- Material transactions would be presented as individual (or grouped) financial statement items with footnote disclosures as appropriate.

- No specific guidelines exist for presentation of the effect of discontinued operations.

The guiding principle is comparability between income statements presented. If the effect of discontinued operations is not specifically reflected in the financial statements, sufficient footnote disclosures should be made.

43. Pensions are normally covered by pension funds or insurance coverage. Unfunded pension obligations are rare.

No

43. A. Are pension costs provided for covered employees over the term of employment? (P 16)

- B. If so, do they include charges for costs assigned under the actuarial method used in years prior to the plan's inception?

No

44. A. Are specific disclosures required relating to pension plans? (P 16)

- B. If so, list them.

45. A. When accounting income and taxable income differ, are deferred income taxes recorded

Yes. ARL article 50 and IAS No. 12

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
for temporary differences (as opposed to permanent differences)? (I27)					
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	Yes	✓			
46. A. Are deferred taxes determined on the basis of current tax rates? (I27)	Yes	✓			
B. If not, on what basis?					
47. A. Is specific information related to income taxes required to be disclosed? (I27)	Yes. ARL article 50	✓			
B. If so, list the requirements.					47B. The required disclosures are as follows: <ul style="list-style-type: none"> • Amount of taxes paid during the year • The effect on taxable income of extraordinary items • The amount of deferred taxes (if not reflected in the financial statements) • Identification of the assets and liabilities to which deferred taxes relate
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I27)	No			✓	

B. If so, are the tax effects of a loss carryback included in the income in the period?			
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (127)	Yes	✓	
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes	✓	49B. The tax effect of loss carryforwards may be recognized in earlier periods provided that the utilization of the deferred tax assets is assured beyond any reasonable doubt.
50. Are financial statements of a foreign entity prepared for consolidated purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. ACG No. 9	✓	
51. Are all elements of financial statements translated at a current exchange rate? (F60)	Yes. ACG No. 9	✓	
52. A. Are translation adjustments reported separately? (F60)	Yes. ACG No. 9	✓	
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	No		✓
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	No	✓	
53. A. Are gains and losses resulting from transactions denominated in a currency other than that	Yes. ACG No. 9	✓	

<u>U.S. Generally Accepted Accounting Principles</u>	<u>Required by Government or Professional Pronouncements</u>	<u>Predominant Practice</u>	<u>Minority Practice</u>	<u>Not Done</u>	<u>Comments</u>
of the environment in which the entity operates included in determining net income for the period in which the exchange rate changes? (F60)					
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. ACG No. 9	✓			
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. ACG No. 9	✓			
55. What information is disclosed about foreign currency restrictions? (F60)					55. There are no specific requirements, except that disclosure must be made if omission of such information would lead to the financial statements not being fairly presented.
56. Are significant events arising subsequent to the balance-sheet date reflected in the financial statements or notes thereto? (C59)	Yes. ARL article 56, ACG No. 4, and ACG No. 10	✓			56. Disclosure should be made in the directors' report and may be discussed in the notes.
57. Please list any accounting standards for Denmark for which there are no corresponding U.S. standards.					57. Standards include— • Model chart of accounts. • Preparation and presentation of directors' report.

Bibliography

The information in this booklet was compiled from many sources in Denmark. Significant references follow.

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- The Companies' Acts
- Accounting and Audit Guidelines issued by the Danish Institute of State-Authorized Public Accountants (FSR)
- FSR Member Handbook 1992
- Ernst & Young: *Doing Business in Denmark*, Ernst & Young International, Ltd., 1992

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